

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 IO-13 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
EUR-12 NEA-10 AGRE-00 DODE-00 PA-02 PRS-01 /127 W
-----161334Z 053846 /46

R 160538Z MAR 77

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6532

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

UNCLAS KUALA LUMPUR 1638

E.O. 11652: N/A

TAGS: EFIN, MY

SUBJECT: MALAYSIA'S ECONOMIC PERFORMANCE IN 1977

1. SUMMARY: DEPUTY MINISTER OF FINANCE RICHARD HO HAS
STATED THAT MALAYSIA WILL PROBABLY ACHIEVE 9.3 PERCENT RATE OF
ECONOMIC GROWTH DURING 1977. MAIN GOM PROBLEM FOR THE YEAR
WILL BE TO KEEP INFLATION RATE BELOW TARGET OF 5 PERCENT.
END SUMMARY.

2. DEPUTY FINANCE MINISTER RICHARD HO RECENTLY BRIEFED
MALAYSIAN AMBASSADORS AND HIGH COMMISSIONERS ON MALAYSIA'S
ECONOMIC PERFORMANCE DURING 1976 AND PROSPECTS FOR 1977. HO'S
BRIEFING WAS GENERALLY POSITIVE AND LOOKED TOWARD CONTINUING
GROWTH OF THE LOCAL ECONOMY.

3. HO PUT SPECIAL EMPHASIS ON PRESIDENT CARTER'S ADDRESSES
ON THE WORLD ECONOMY AND PREDICTED THAT OTHER OECD COUNTRIES
WOULD FOLLOW THE PRESIDENT'S LEAD WITH EXPANSIONARY FISCAL
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POLICIES. IF THIS DOES IN FACT HAPPEN, THE DEPUTY MINISTER
COMMENTED THAT MALAYSIA WILL ACHIEVE THE 9.3 PERCENT ECONOMIC
GROWTH RATE IT HAS SET AS ITS GOAL.

4. HO COMMENTED THAT THE GOM WAS ABLE TO RESTRAIN THE GROWTH
OF THE CONSUMER PRICE INDEX (CPI) TO 2.6 PERCENT IN 1976 AND
HOPES TO KEEP IT BELOW A 5 PERCENT INCREASE DURING 1977.

GOM BELIEVES THAT INFLATION RATE FOR 1977 WILL BE VERY DEPENDENT ON WHAT OECD COUNTRIES DO TO REFLATE THEIR OWN ECONOMIES.

5. ACCORDING TO THE DEPUTY MINISTER, GOM REVENUES WERE HIGHER IN 1976 THAN ANTICIPATED FOR TWO REASONS. FIRST WAS THE EARLY RECOVERY OF MARKETS FOR MALAYSIA'S PRIMARY COMMODITIES AND SECOND WAS MORE EFFICIENT TAX COLLECTION SYSTEMS. 1977 REVENUES ARE EXPECTED TO INCREASE BUT NOT AT A RATE HIGH ENOUGH TO COVER PROJECTED WAGE INCREASES FOR GOVERNMENT EMPLOYEES. HO FEELS THAT THIS IS EXPECTED TO BE THE MAJOR SOURCE OF STRAIN ON THE MALAYSIAN ECONOMY IN 1977.

6. COMMENT: HO'S COMMENTS ON MALAYSIAN ECONOMY ARE GENERALLY IN LINE WITH WHAT OTHER GOVERNMENT AND PRIVATE SECTOR SOURCES PROJECT. GOM WILL FACE A GREAT DEAL OF DIFFICULTY IN KEEPING INFLATION RATE BELOW 5 PERCENT IN 1977 BECAUSE OF SCHEDULED GOVERNMENT PAY RAISE AND PAYMENT OF ARREARS TO PUBLIC SECTOR EMPLOYEES DATING BACK TO JANUARY 1, 1976. GOM'S METHOD OF PAYMENT OF ARREARS, I.E., LUMP SUM OR STAGGERED, WILL BE KEY DETERMINANT IN HOW SUCCESSFUL ANTI-INFLATIONARY MEASURES WILL BE. END COMMENT.
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